

## Message Text

CONFIDENTIAL

PAGE 01 ABIDJA 02824 01 OF 02 231221Z  
ACTION AF-10

INFO OCT-01 EUR-12 ISO-00 AGRE-00 AID-05 CIAE-00  
COME-00 EB-08 FRB-03 INR-10 NSAE-00 USIA-06  
TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01  
NSC-05 SS-15 STR-07 CEA-01 PA-01 DOE-15 SOE-02  
/114 W

-----102113 231701Z /23

R 231125Z MAR 78  
FM AMEMBASSY ABIDJAN  
TO SECSTATE WASHDC 7980  
INFO AMEMBASSY ACCRA  
AMEMBASSY COTONOU  
AMEMBASSY DAKAR  
AMEMBASSY LOME  
AMEMBASSY MONROVIA  
AMEMBASSY NIAMEY  
AMEMBASSY OUAGADOUGOU  
AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 2 ABIDJAN 2824

E.O. 11652: GDS  
TAGS: EFIN, IV  
SUBJECT: STORM CLOUDS ON THE HORIZON:  
PROSPECTS FOR A DOWNTURN IN IVORY COAST ECONOMIC GROWTH

REF: A. 77 ABIDJAN A-49; B. 77 ABIDJAN A-85; C. ABIDJAN  
001 AND 002

SUMMARY: ON THE SURFACE, AT LEAST, IVORY COAST CON-  
TINUES TO ENJOY THE PROSPERITY AND HIGH RATES OF ECONOMIC  
GROWTH DESCRIBED IN ABIDJAN 001 AND 002. INDEED, HIGH  
PRICES FOR COFFEE, COCOA, AND TIMBER OVER THE PAST  
TWO YEARS HAVE RESULTED IN IMMENSE TRADE SURPLUSES  
AND RECORD FOREIGN EXCHANGE HOLDINGS. HOWEVER, THERE  
IS NOW ACCUMULATING EVIDENCE THAT THE IVORY COAST ECONOMY  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 ABIDJA 02824 01 OF 02 231221Z

IS BECOMING OVERHEATED, AND FACES A PERIOD OF DEFLATION  
BY THE GOIC OR BY CONDITIONS BEYOND ITS CONTROL.  
CAPITAL FORMATION RUNNING AT AS MUCH AS 40 PERCENT  
OF GDP IS BEGINNING TO GENERATE INCREASING INFLATION  
AND ECONOMIC DISLOCATION. RECOURSE TO FOREIGN BOR-  
ROWING TO FINANCE THAT INVESTMENT, IF NOT REDUCED SUB-  
STANTIALLY, COULD RAISE THE DEBT SERVICE RATIO FROM

THE 14-15 PERCENT RECORDED IN 1977 TO A STEEP 25-30 PERCENT WITHIN THE NEXT FOUR YEARS. ECONOMISTS AT THE TECHNICAL LEVEL IN THE GOIC ARE AWARE OF THE PROBLEM, WHICH HAS BEEN SIGNALLED TO THEM BY WORLD BANK OFFICIALS AND PERHAPS SOME PRIVATE BANKS. BUT TOUGH POLITICAL DECISIONS WILL BE REQUIRED, AND PRESIDENT HOUPHOUET HIMSELF MAY FIND IT VERY DIFFICULT TO SLOW THE MOMENTUM ALREADY BUILT UP, PARTICULARLY IN A NATIONAL MOOD APPROACHING ECONOMIC EUPHORIA. ABIDJAN 001 ASKED TO WHAT EXTENT THE GOIC WAS SACRIFICING SHORT-TERM ECONOMIC RESILIENCY FOR LONG-TERM DIVERSITY. THE ANSWER INCREASINGLY APPEARS TO BE "TOO MUCH," AND FORCEFUL LEADERSHIP AT THE HIGHEST LEVELS WILL PROBABLY BE REQUIRED TO CORRECT IT.

END SUMMARY

1. EVIDENCE IS NOW MOUNTING THAT IVORY COAST IS HEADED FOR A FINANCIAL CRUNCH. PARADOXICALLY, THIS COMES IN THE MIDST OF A PERIOD OF UNPRECEDENTED PROSPERITY IN IVORY COAST. HIGH PRICES FOR COFFEE AND COCOA PLUS A RESURGENT DEMAND IN EUROPE FOR IVORIAN TIMBER EXPORTS OVER THE PAST TWO YEARS HAVE LEFT THIS OPEN ECONOMY (EXPORTS ACCOUNT FOR ALMOST 40 PER CENT OF GROSS DOMESTIC PRODUCT) WITH AN IMMENSE TRADE SURPLUS AND RECORD FOREIGN EXCHANGE. INDEED, THE 1976-80 DEVELOPMENT PLAN, WHICH MANY COMMENT-  
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 ABIDJA 02824 01 OF 02 231221Z

TATORS INCLUDING THE WORLD BANK CRITICIZED IN 1975-76 AS BEING OVERLY AMBITIOUS, HAS TWO YEARS LATER TURNED OUT TO BE WELL WITHIN THE MEANS OF THE IVORY COAST ECONOMY.

2. THE PROBLEM IS THAT THE GOIC, ALWAYS SEEKING TO STRETCH THE LIMITS OF THE POSSIBLE IN ECONOMIC DEVELOPMENT, HAS TAKEN ADVANTAGE OF ITS CURRENT SOLVENCY TO REVISE ITS INVESTMENT PROGRAM SUBSTANTIALLY UPWARDS FROM THE LEVELS PROPOUNDED IN THE DEVELOPMENT PLAN. THE PLAN CALLED FOR PUBLIC SECTOR INVESTMENTS OF 1,020 BILLION 1975 CFA FRANCS (\$4.25 BILLION) AND TOTAL (PUBLIC PLUS PRIVATE) INVESTMENTS TALLING 31 PER CENT OF GDP (PROJECTED TO INCREASE FROM 771 BILLION CFAF IN 1975 TO 1,171 BILLION 1975 CFAF IN 1980) OVER THE 1976-80 PERIOD. IT IS NOW APPARENT THAT THESE OBJECTIVES WILL BE FAR SURPASSED. RELEASED EARLY IN 1977, THE REVISED GOIC PUBLIC INVESTMENT PROGRAM CALLED FOR SPENDING OF 960 BILLION 1975 CFAF OVER THE 1976-79 PERIOD, MAKING IT INEVITABLE THAT THE 1,020 BILLION 1975 CFAF FIGURE WILL BE EXCEEDED BY THE END OF 1980. IN FACT, GOVERNMENT INVESTMENTS IN 1977 RAN FAR AHEAD OF PROJECTIONS AND THE GOIC HAS FOUND IT NECESSARY TO ALLOCATE 47.1 BILLION

CFAF OUT OF ITS 1978 GOVERNMENT INVESTMENT BUDGET (18 PER CENT OF THE TOTAL) TO FINANCE EXPENDITURES MADE IN 1977. THE 1978-80 PUBLIC INVESTMENT PROGRAM, NOT YET RELEASED, REPORTEDLY CALLS FOR MORE OF THE SAME.

3. IF NOT SUBSTANTIALLY REDUCED IN THE NEAR FUTURE, THIS INVESTMENT PROGRAM WILL GENERATE DIFFICULTIES IN MANY DIFFERENT AREAS. FIRST OF ALL, THE IVORIAN ECONOMY WILL EXPERIENCE DIFFICULTY IN ABSORBING INVESTMENTS RUNNING AT AN ANNUAL RATE APPROACHING 40 PER CENT OF GDP. FOR EXAMPLE, THERE ARE NOT SUFFICIENT TRAINED PERSONNEL AVAILABLE TO MANAGE THE WIDE VARIETY OF NEW ENTERPRISES BEING ESTABLISHED. IVORY COAST'S TRADITIONAL SOLUTION TO THIS PROBLEM HAS BEEN TO IMPORT EXPATRIATE TECHNICAL  
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 ABIDJA 02824 01 OF 02 231221Z

ASSISTANCE, BUT WITH THE PRIVATE UNREQUITED TRANSFERS ITEM IN ITS BALANCE OF PAYMENTS ALREADY RUNNING A DEFICIT OF MORE THAN 50 BILLION CFAF ANNUALLY IT IS DOUBTFUL THAT RELIANCE ON THIS SOLUTION CAN BE SIGNIFICANTLY INCREASED. BOTTLENECKS ARE BOUND TO APPEAR IN OTHER AREAS AS WELL, ACCELERATING THE INFLATION (15 PER CENT IN 1976, PERHAPS 20 PER CENT IN 1977) WHICH HAS ALREADY BEGUN TO SIGNAL AN OVERHEATING OF THE IVORIAN ECONOMY.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 ABIDJA 02824 02 OF 02 231640Z

ACTION AF-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08

FRB-03 INR-10 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-07 CEA-01 PA-01 AGRE-00 DOE-15 SOE-02 /114 W

-----104938 231659Z /47

R 231125Z MAR 78

FM AMEMBASSY ABIDJAN

TO SECSTATE WASHDC 7981

INFO AMEMBASSY ACCRA

.AMEMBASSY COTONOU 3460

AMEMBASSY DAKAR

AMEMBASSY LOME

AMEMB\*SSY MONROVIA 6467  
AMEMBASSY NIAMEY  
AMEMBASSY OUAGADOUGOU  
AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 2 OF 2 ABIDJAN 2824

4. AS WE NOTED IN ABIDJAN 002, SOME OF THE PROJECTS IN THE DEVELOPMENT PLAN - SUGAR MILLS, A PAPER PULP MILL, THE MERCHANT MARINE FLEET - WILL BE RISKY EVEN WITH EXPATRIATE EXPERTISE. MORE DISTURBING IS AN APPARENT INCREASED READINESS TO UNDERTAKE LARGE PROJECTS WHOSE CONTRIBUTION TO THE ECONOMY WOULD BE NEGLIGIBLE - AN INTERNATIONAL AIRPORT AT BOUAKE, A HUGE MODERN HOSPITAL IN ABIDJAN, AND THE ENORMOUS MARBLE COVERED MAUSOLEUM IN HOUPHOUET'S BIRTHPLACE AT YAMOISSOUKRO - THE SORT OF PRESTIGE VENTURE IVORY COAST CAREFULLY ESCHEWED DURING THE 1960'S.

5. THE MOST SERIOUS PROBLEM LIKELY TO RESULT FROM A CONTINUATION OF THE CURRENT INVESTMENT PROGRAM WILL BE THE SERVICING OF EXTERNAL DEBT. BOTH DEBT AND DEBT SERVICE HAVE BEEN INCREASING RAPIDLY IN RECENT YEARS AS  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 ABIDJA 02824 02 OF 02 231640Z

THE GOIC HAS BEEN FLOODED WITH OFFERS OF COMMERCIAL LOANS BY INTERNATIONAL BANKS FLUSH WITH PETRODOLLARS AND ANXIOUS TO ESTABLISH A Foothold IN THE NASCENT AFRICAN MARKET. DISBURSED PLUS UNDISBURSED FOREIGN DEBT NEARLY DOUBLED FROM 265.5 BILLION CFAF IN 1974 TO 518.5 BILLION CFAF IN 1976. PRELIMINARY REPORTS INDICATE THAT APPROXIMATELY 400 BILLION CFAF WAS ADDED TO THAT FIGURE IN 1977. THIS PLACES TOTAL EXTERNAL DEBT AT YEAREND 1977 IN EXCESS OF 900 BILLION CFAF - CLOSE TO \$4 BILLION - IN A COUNTRY WHERE GDP IS ONLY ABOUT 1,300 BILLION CFAF. FOLLOWING THIS TREND, DEBT SERVICE HAS ALSO RISEN DRAMATICALLY. FROM 29.6 BILLION CFAF IN 1975, IT INCREASED TO 49.8 BILLION CFAF THE FOLLOWING YEAR, AND MAY HAVE REACHED 85 BILLION CFAF IN 1977. AS A PERCENTAGE OF EXPORTS OF GOODS AND SERVICES, IT INCREASED FROM 9.4 PERCENT IN 1975 TO 14-15 PERCENT IN 1977. FURTHERMORE, CURRENT GOIC PROJECTIONS OF FUTURE INVESTMENTS CALL FOR CONTINUED ACCUMULATION OF EXTERNAL DEBT AT A HIGH RATE. ON THE BASIS OF THESE PROJECTIONS, IT BECOMES NECESSARY TO CONTEMPLATE THE DISQUIETING POSSIBILITY OF A 25-30 PERCENT DEBT SERVICE RATIO WITHIN THE NEXT FOUR YEARS.

6. FAILING A MASSIVE OIL STRIKE (MUCH LARGER THAN ANYTHING YET FOUND) OR SOME OTHER SPECTACULAR CHANGE IN IVORIAN ECONOMIC FORTUNES, THE EMBASSY SHARES IBRD'S BELIEF THAT

REORIENTATION OF THE IVORIAN DEVELOPMENT PROGRAM IN THE VERY NEAR FUTURE IS IMPERATIVE. THE CURRENT PACE CANNOT BE MAINTAINED WITHOUT RISKING THE FINANCIAL STABILITY OF THE IVORIAN ECONOMY. THOUGH GOIC POLICYMAKERS HAVE BEEN SLOW IN HEEDING REPORTS OF THE GATHERING STORM CLOUDS (NOT SURPRISING IN VIEW OF THE GOIC'S REMARKABLE SUCCESS IN THE PAST IN OVERCOMING OBSTACLES TO IVORIAN ECONOMIC DEVELOPMENT), THERE HAVE RECENTLY BEEN SOME  
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 ABIDJA 02824 02 OF 02 231640Z

ENCOURAGING SIGNS: THE CONTINUING GOVERNMENTAL REFORM PROGRAM HAS HAD SOME SUCCESS IN ROOTING OUT CORRUPTION AND INEFFICIENCY AND AT LEAST IN THE SHORT-TERM, IN LIMITING GOVERNMENT PRODIGALITY. MOREOVER, A SLOWDOWN IN NEW SPENDING PROGRAMS PENDING THE CONCLUSION OF THE REFORM CAMPAIGN SUGGESTS THAT SOME OF THE MORE UNECONOMIC PROJECTS IN THE DEVELOPMENT PROGRAM MAY YET BE POSTPONED OR CANCELLED. NEVERTHELESS, THE GOIC STILL HAS SOME DIFFICULT DECISIONS TO MAKE, FOR BASIC CHANGES IN IVORY COAST'S DEVELOPMENT STRATEGY CANNOT BE EFFECTIVELY CARRIED OUT ON A PIECEMEAL BASIS. MORE DECISIVE AND COORDINATED ACTION WILL BE NECESSARY, AND THIS WILL REQUIRE THE PERSONAL LEADERSHIP OF PRESIDENT HOUPHOUET-BOIGNY. RECOGNIZING THIS FACT, GOVERNMENT ECONOMIC ADVISORS HAVE REPORTEDLY PREPARED A REPORT TO THE PRESIDENT RECOMMENDING CORRECTIVE ACTION (POSTPONEMENT OF A VARIETY OF NEW PROJECTS AND EARLY AMORTIZATION OF A SUBSTANTIAL AMOUNT OF EXTERNAL DEBT) ON AN URGENT BASIS. HOUPHOUET'S DECISION, HOWEVER, WILL HAVE TO TAKE POLITICAL AND SOCIAL CONCERNS INTO ACCOUNT AS WELL AS ECONOMIC ONES. HE IS TO SOME EXTENT COMMITTED TO EXTENDING THE DEVELOPMENT PROCESS TO IVORY COAST'S LESS FAVORED REGIONS - AS WITH SUGAR COMPLEXES IN THE NORTH, OR A PAPER PULP PROJECT IN THE SOUTHWEST. AND AFTER YEARS OF SUCCESS IN THE FACE OF CASSANDRA - LIKE PROPHECIES FROM WORLD BANK ECONOMISTS, HE MAY BE RELUCTANT TO TAKE MEASURES TO SLOW THE PACE OF THE DEVELOPMENT PROCESS. THE QUESTION REMAINS WHETHER, IN SEEKING TO RECONCILE THE REQUIREMENTS OF THE ECONOMIC SITUATION WITH POLITICAL REALITIES, HE WILL BE ABLE TO MAKE DECISIONS NOW SUFFICIENT TO COPE WITH THE PROSPECTIVE DIFFICULTIES CONFRONTING IVORY COAST SOME YEARS HENCE. EMBASSY DOES NOT WISH TO IMPLY THAT IVORY COAST FACES DISASTER; ITS TRACK RECORD, PARTICULARLY IN COMPARISON WITH OTHER BLACK AFRICAN NATIONS HAS BEEN EXTRAORDINARILY GOOD. BUT THE SITUATION AT LEAST WARRANTS STORM WARNINGS.  
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 ABIDJA 02824 02 OF 02 231640Z

STEARNS

CONFIDENTIAL

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC DEVELOPMENT, ECONOMIC GROWTH  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 23 mar 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978ABIDJA02824  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780128-0652  
**Format:** TEL  
**From:** ABIDJAN  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1978/newtext/t19780334/aaaabcpt.tel  
**Line Count:** 281  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** 4f451fbf-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION AF  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** 77 ABIDJAN A-49, 77 ABIDJAN A-85  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 19 apr 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 3231682  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** STORM CLOUDS ON THE HORIZON: PROSPECTS FOR A DOWNTURN IN IVORY COAST ECONOMIC GROWTH  
**TAGS:** EFIN, ECON, IV  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/4f451fbf-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014